THE UNITED STATES SUGAR PROGRAM

The Sugar Industry. Per capita consumption of refined sugar in the continental United States averages about 97 pounds per year. Well over half of the tremendous quantity of raw sugar required to meet this consumer demand is being supplied by domestic growers of sugarcane and sugar beets, only slightly less from beets than from cane The balance, almost all cane sugar, is imported. Further details for 1959-61 are shown in the table on page 10.

The mainland sugarcane producing area consists of the States of Louisiana and Florida. The offshore domestic sugarcane areas are the State of Hawaii, the Commonwealth of Puerto Rico, and the Virgin Islands. The sugar beet producing area consists of the following 21 States (arranged in decreasing order of production importance in the 1960 crop): California, Colorado, Idaho, Minnesota, Nebraska, Michigan, Montana, Washington, Wyoming, North Dakota, Utah, Oregon, Ohio, Kansas, South Dakota, Wisconsin, Texas, Illinois, Iowa, New Mexico, and Nevada.

About 45,000 domestic farms grow sugarcane or sugar beets. To cultivate and harvest these sugar crops about 220,000 farm workers are required, mostly on a seasonal basis. The farm investment in growing sugarcane and sugar beets in all domestic areas was estimated as about 750 million dollars in 1959 and has increased since that time.

To produce the refined sugar commonly used in American households most sugar produced from sugarcane goes through two stages of processing. The first process, which yields raw cane sugar, is that of extracting, boiling,

crystallizing and centrifuging the cane juice. This is done in raw cane sugar mills in the areas where the sugarcane is grown.

Blackstrap molasses and bagasse are byproducts of this first processing of sugarcane juice. The former is used for cattle feed and for manufacture of ethyl alcohol, yeast, vinegar, and citric acid. Bagasse, the fibrous portion of sugarcane, is used principally as fuel in the cane mills and as raw material in the manufacture of building board, cardboard, and paper.

Most of the cane sugar brought to the mainland from offshore areas, both foreign and domestic, is in the raw form. It is put through the second process -- the refining process -- in refineries, most of which are located in large port cities. A few refineries, however, are located in producing areas and some are located at interior points of consumption. Refined sugars, refiners' sirups, and refiners' blackstrap molasses result from this second process.

In contrast to the dual processing of cane sugar, sugar from beets is processed in a single plant. The principal byproducts are beet molasses and beet pulp. The pulp is used for cattle feed. Beet molasses, like blackstrap, is used as an ingredient in cattle feed, and in the manufacture of yeast and citric acid. A substantial quantity of beet molasses is put through the Steffen's process for additional extraction of sugar. The resultant Steffen's waste is used to produce monosodium glutamate, a condiment.

In the domestic areas, 63 beet sugar factories, 108 cane sugar mills, and 28 refineries were in operation in 1961. Approximately 55,000 workers were employed in these sugar-making plants. One additional beet sugar factory (in California) and 4 additional cane sugar mills (in Florida) are under construction with 2 more committed. The investment is nearing a billion dollars.

The Sugar Act and How it Works

How the Act Developed. For almost 150 years -- from 1789 to 1934 -- the United States sugar industry was protected and regulated almost solely by tariff duties. With the onset of the world-wide depression in the early 1930's, however, it became clear that the industry had become so ramified and price and production relationships among domestic and foreign producing areas so complex that further adjustments in the tariff duties would no longer provide an adequate answer to the problem.

To meet this situation, the Jones-Costigan Act was approved by the President on May 9, 1934. Although there have been modifications made in various operating provisions, the basic philosophy underlying this Act has been carried forward in subsequent legislation. The Act set forth six principal means for dealing with the sugar problem:

(1) The determination each year of the quantity of sugar needed to supply the nation's requirements at prices reasonable to consumers and fair to producers.

(2) The division of the United States sugar market among the domestic and foreign supplying areas by the use of quotas and subordinate limitations on offshore direct-consumption sugar.

(3) The allotment of these quotas among the various processors in each domestic area.

(4) The adjustment of production in each domestic area to the established quotas.

(5) The use of tax receipts to finance payments to compensate growers for adjusting production to marketing quotas and to augment income, and

(6) The equitable division of sugar returns among beet and cane processors, growers, and farm workers.

The Jones-Costigan Act was superseded by the Sugar Act of 1937, which in turn was superseded by the Sugar Act of 1948. The latter, with modifications made by amendments in 1951, 1956, 1960, and 1961 is the Act in effect through June 30, 1962, subject to further action in the second session of the 87th Congress to convene in January 1962.

How the Act Works

The Sugar Act of 1948, as amended, is designed to protect the welfare of the domestic sugar industry, to provide adequate supplies of sugar for consumers at fair prices, and to promote international trade. This balance of interests is achieved through the adjustment of supplies of sugar that may be marketed in the United States.

The Determination of Sugar Requirements. Under provisions of the Act, the Secretary of Agriculture determines how much sugar will be needed to fill continental United States requirements during each calendar year. The determination, which is made in December for the year following but may be revised later if the needs change, establishes the quantity of sugar that may be marketed in the United States during the year.

In making his initial estimate the Secretary uses as a basis the quantity of sugar distributed during the preceding 12-month period ended October 31. Then he makes allowances for deficiencies or surpluses in the nation's sugar inventories and for changes in consumption caused by changes in population and in demand conditions. The Secretary also considers the relationships between wholesale prices for refined sugar and the cost of living so that sugar prices will be neither excessive to consumers nor too low to protect the welfare of the domestic sugar industry.

Since World War II, the Secretary has held a public hearing each year at which all interested persons -- sugarcane and sugar beet growers, industrial

users and other consumers, distributors, refiners, and beet and cane processors -- may present views or arguments on the matter. The meeting is usually held in November, a few weeks before the requirements determination is issued. Written statements may also be submitted to the Secretary.

The Secretary must also determine requirements for consumption in Hawaii and Puerto Rico so that the general price and marketing objectives will be similar in all American markets.

Establishing Quotas for Domestic and Foreign Producing Areas. After the Secretary has determined overall requirements, each domestic and foreign producing area supplying the United States with sugar is assigned a quota representing its share of the market as specified by the Act.

Under amendments enacted in July 1960, and March 1961, the President determines, notwithstanding any other provisions of Title II, the quota for Cuba for the period ending June 30, 1962 in such amounts less than would be provided in Title II as he finds to be in the National interest, and causes or permits to be imported from other sources a quantity of sugar not in excess of the reductions in quotas made under this new provision. The quantities thus provided for under the proclamations of the President are called "allocations" and "authorizations" of "non-quota purchase sugar" to distinguish them from the quotas established under the long-standing provisions of the Act. (See page 8.)

Under the quota provisions, the domestic sugar-producing areas are assigned a base of 4,444,000 short tons, raw value,[1/] plus 55 percent of requirements in excess of 8,350,000 tons. Specific quantities of the domestic share of the increment between 8,350,000 tons and 8,691,818 tons are allocated

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1/ Raw value is the term used in the Sugar Act to express in a common unit the various types of raw and refined sugars that move in commerce. One ton of refined sugar equals 1.07 tons of sugar, raw value.

to individual domestic areas. The domestic share of requirements in excess of 8,691,818 tons is prorated among domestic areas on the basis of their quotas at that level.

The quota for the Republic of the Philippines is fixed at 952,000 tons of sugar (currently 980,000 tons, raw value). Quotas for Cuba and "other foreign countries" (the latter are sometimes called "full duty countries" to distinguish them from Cuba and the Philippines) vary each year, the exact amount depending on the tonnage set by the Secretary's sugar requirements determination.

The proration to the various domestic and foreign supply areas at the specified levels of proration is shown on the following page. Most of the quotas for the domestic offshore and foreign supply areas may be filled only with raw sugar, which is defined as sugar which is to be further refined or improved in quality on the mainland. Other sugar is called "direct-consumption sugar," and includes primarily white refined and other types of sugar familiar in home consumption.

Prior to 1960, about 650,000 tons of direct-consumption sugar were entered from offshore domestic and foreign areas each year. In 1960 the quantity was much smaller and in 1961 only one-half as large. Unrestricted imports of refined sugar would reduce the volume of mainland refining and would create price problems because offshore direct-consumption sugar is quoted at lower prices than sugar refined in the United States.

Proration of Quotas

Area	Quotas when total quotas are 8,350,000 tons	Quotas of domestic areas when total quotas are 8,691,818 tons	Percentage proration for total quotas in excess of basic levels shown in columns (1) or (2)
	(1)	(2)	(3)
	short tons, raw value		percent
Domestic			
Domestic beet sugar	1,800,000	1,884,975	22.3821
Mainland cane sugar	500,000	580,025	6.8871
Hawaii	1,052,000	1,052,000	12.4914
Puerto Rico	1,080,000	1,100,000	13.0613
Virgin Islands	12,000	15,000	.1781
Total domestic	4,444,000	4,632,000	55.0000
Foreign			
Philippines	980,000		0
Cuba	2,808,960		29.5900
Full Duty Countries	117,040		15.4100
Peru	50,062		4.3300
Dominican Republic	29,482		4.9500
Mexico	11,259		5.1000
Nicaragua	8,001		.5739
Haiti	4,820		.2090
Netherlands	3,000		.0696
China (Formosa)	3,000		.0594
Panama	3,000		.0594
Costa Rica	3,000		.0587
Canada	631		0
United Kingdom	516		0
Belgium	182		0
British Guiana	84		0
Hong Kong	3		0
Total Foreign	3,906,000		45.0000
Grand total	8,350,000		100.0000

Non-quota purchase sugar. Sugar to replace a Presidential reduction of the quota for Cuba is directed in the Act to be apportioned as follows:

1. Any foreign country with a quota between 3,000 and 10,000 short tons, raw value, shall be permitted to enter a total of 10,000 tons during the calendar year;

2. Fifteen percent of the remainder shall be purchased from the Republic of the Philippines;

3. The balance, including any unfilled balances from allocations already provided, shall be purchased from foreign countries having quotas other than those provided in 1 above, prorated according to the quotas established, except that any amount which would be purchased from any country with which the United States is not in diplomatic relations need not be purchased;

4. Any additional amounts needed may be purchased from any foreign country without regard to allocation except that for the period April 1961 - June 1962, special consideration shall be given to countries of the Western Hemisphere and to those countries purchasing United States agricultural commodities.

To the extent that the President finds that raw sugar is not reasonably available, direct-consumption sugar may be permitted or caused to be imported. Of the total replacement of Cuban sugar in 1960, about 967,000 short tons,

raw value, were authorized for purchase under the formula outlined in items 1, 2 and 3, above, about 233,000 tons were authorized under item 4 by the Secretary of Agriculture with the concurrence of the Secretary of State, as provided in the Proclamation of the President, and 236,000 tons were not allocated. In 1961 the three corresponding quantities were about 1,874,000 tons, 1,243,000 tons, and 180,000 tons respectively.

The distribution of our total sugar supply in 1959, the last year in which Cuba's quota was established in the traditional manner, and for 1960 and 1961 is shown in the table below. The adjusted quotas shown for Hawaii and Puerto Rico and in 1959 and 1960 for the Virgin Islands show "deficits." Those for the other domestic areas and for Cuba (1959 only) include their shares of the deficits. The domestic area quotas were not entirely filled in 1959 (by about 155,000 tons) or in 1960 (by about 600,000 tons). Fairly substantial shortfalls in 1961 foreign authorizations were in prospect late in the year. Thus, the supplies actually becoming available within the total quotas and authorizations were about 9,245,000 tons for 1959, 9,520,000 tons for 1960, and about 9,700,000 tons for 1961.

Sugar quotas and non-quota purchase authorization, 1959-1960 (final); 1961 in effect November 20

Area	1959	1960	1961
	Short tons, raw value		
Domestic Beet	2,267,665	2,514,945	2,609,170
Mainland Cane	697,783	773,873	715,000
Hawaii	977,970	940,444	1,030,000
Puerto Rico	969,875	893,620	980,000
Virgin Islands	12,405	8,618	17,330
Republic of the Philippines	980,000	1,156,426	1,470,731
Cuba	3,215,457	2,419,655	0
Peru	95,527	273,827	636,377
Dominican Republic	81,457	452,814	333,880
Mexico	64,809	400,437	685,000
Nicaragua	14,027	41,766	43,368
Haiti	7,014	35,672	45,273
Netherlands	3,731	10,556	10,000
China (Formosa)	3,624	10,476	170,028
Panama	3,624	10,476	10,000
Costa Rica	3,616	10,469	30,250
Canada	631	2,288	1,897
United Kingdom	516	1,871	1,550
Belgium	182	660	1,635
Hong Kong	3	11	30
Federation of the West Indies and British Guiana	84	92,849	266,007
El Salvador	0	6,000	12,000
Guatemala	0	6,000	17,000
Brazil	0	100,347	306,474
Ecuador	0	0	36,000
Colombia	0	0	46,000
French West Indies	0	0	75,000
Australia	0	0	90,000
Paraguay	0	0	5,000
India	0	0	175,000
Sub-totals	9,400,000	10,164,100	9,820,000 1/
Not authorized for purchase	-	235,900	180,000
Total	9,400,000	10,400,000	10,000,000

1/ Of this quantity approximately 14,900 tons were not imported by March 31, 1961 and cannot be authorized for importation after that date.

Deficits in Quotas. If the Secretary finds that any domestic area or Cuba cannot supply its quota, he must allocate the deficit among the rest of these areas in proportion to their quotas, except that Cuba does not share in any deficit of a domestic area quota after mid-1960 nor prior to that time in any deficit in that part of the quota resulting from sugar requirements in excess of 8,350,000 tons. For example, in 1961, Hawaii and Puerto Rico were able to supply less than the quotas provided for within an 8,350,000 ton total. In this year the entire deficits were shared by the Domestic Beet and Mainland Cane Sugar Areas, including 69,542 tons that would have been Cuba's share as provided in the Act prior to 1960.

Deficits in the quotas for the Republic of the Philippines, under pre-1960 provisions, were allocated 96 percent to Cuba and 4 percent to other foreign countries. A deficit in an individual other foreign country proration is allotted among the remaining countries of the "other foreign countries" group. Cuba is assigned any deficit in the overall quota for this group.

If any area is unable to fill the deficit assigned to it, the deficit may be reapportioned to such other areas as the Secretary determines is necessary to obtain the sugar.

A deficit determination does not deprive any area or country of the right to supply its full quota if it later finds itself able to do so. This does not apply, however, to non-quota purchase allocations which may be withheld or withdrawn from authorization.

Establishing Marketing Allotments. One important function of the sugar program is to promote orderly marketing. The establishment of quotas may in itself accomplish this, but sometimes quotas are not enough. This is particularly true when supplies in the producing areas materially exceed quotas. If,

for example, a domestic area has more sugar available for marketing than its quota, each of the various processors is likely to rush sugar to market to make sure that he disposes of his supply before the quota is filled. This tends to bring about a temporarily over-supplied market and panicky sellers and usually causes an unwarranted decline in price.

If the Secretary finds that the pressure of supplies in an area is likely to cause disorderly marketing, he must allot the quota fairly among the processors. The allotment is based on past marketings of sugar by the various processors, their ability to market sugar during the season for which the allotment is being made, and on their sugar processings from beets or cane to which "proportionate farm shares" pertain. In 1961, only the quota for the Domestic Beet Sugar Area was allotted.

Assigning Proportionate Shares. In the domestic areas, the Secretary must, in addition to establishing processor allotments, see that each sugar-producing farm gets its fair share of the available market. In dividing this market the Secretary must allow for enough sugar to fill the quota for the applicable year and to provide a normal carryover inventory. If the crop prospect is for this or a smaller amount of sugar, production is unrestricted on all farms. Each farm allotment, known as its "proportionate share," is expressed either in acres, tons of sugarcane or beets, or quantity of sugar.

The purpose in assigning specific shares to farms in a particular area is to adjust crop output to the area's quotas and normal carryover and to assure that each farm will share equitably in this adjustment. Thus past production and the ability of the farm to produce beets or cane during the year for which the determination is being made must be considered. The Act also requires the Secretary to protect the interests of small and new producers and producers who are tenants or sharecroppers, and to consider the interest

of producers in any local producing area where past production has been seriously affected by abnormal and uncontrollable natural conditions. For farms in all domestic areas for the 1961 crop the specific shares were the acreages actually harvested for sugar. In other words, there were no individual farm restrictions. By late November 1961, it had been determined that the same would be true for the 1962 crop for all cane sugar areas but the determination had not been issued for the beet sugar area.

Producers are not required to stay within their assigned proportionate shares. They must do so, however, if they wish to receive "conditional payments" from the Government. These payments are an important part of their income. Generally, too, processors are reluctant to buy sugarcane or sugar beets from non-proportionate share acreage.

Conditional Payments to Growers. In addition to providing an incentive to growers to adjust their production to quota and carryover needs, the conditional payments have three objectives: (1) to help give growers adequate income from sugarcane and sugar beet production; (2) to assure growers and their fieldworkers a fair share of the returns to the sugar industry; and (3) to prevent the employment of child labor in field work.

The first objective is automatically achieved by the payment itself. The second and third objectives are attained by requiring growers, in addition to complying with their proportionate shares, to pay field workers in full for work performed on cane or beets at rates not less than those determined by the Secretary to be fair and reasonable, to observe child labor regulations specified by the Act, and -- if they are processors as well as growers -- to pay fair prices for cane or beets purchased from other growers.

The child labor regulations require that growers must not employ children under the age of 14 nor permit them to work on sugar beets or sugarcane.

Children between the ages of 14 and 16 may not be employed or permitted to work for more than 8 hours a day. Growers who own at least 40 percent of the crop they are cultivating are exempted from these provisions with respect to their own children. Unless a grower observes these conditions he is penalized by a deduction of $10 from his payment for each child and for each day or part of a day during which a child was employed or permitted to work.

The rate of the conditional payment declines as the volume of commercially recoverable sugar contained in the cane or beets marketed by the farm increases. The basic rate of 0.8 cent a pound of sugar, raw value, or $16.00 a ton, is paid on the first 350 short tons produced. This rate is reduced progressively to a minimum of $6.00 a ton on all sugar produced in excess of 30,000 tons.

Cost of the Program. Although the funds for the conditional payments are appropriated annually by the Congress, an excise tax on sugar provides funds which more than offset the total of all conditional payments plus the costs incurred by the Department of Agriculture in administering the sugar program. The basic tax rate is 0.5 cent a pound or $10.00 a ton, raw value. On domestically manufactured sugar the tax is paid principally by sugar beet processors and cane sugar refiners; on imports of direct-consumption sugar it is paid by the importer. The tax is refunded on sugar used for livestock feed and on sugar exported.

The 12-year (1948-59) average rate of payment to all domestic growers was 68 cents a hundred pounds, ranging from an average of 46 cents in Hawaii, where most of the production is on large farms, to an average of 79 cents in the beet area. The average rate of payment thus exceeds the tax rate (50 cents a hundred pounds) even though total tax receipts exceed the cost of the program. The seeming paradox is explained by the fact that the tax is imposed on all sugar (foreign as well as domestic) manufactured or imported for direct consumption, whereas the conditional payments are made on domestic production only.

The sugar program also gives limited benefits to growers in the form of special conditional payments for crop deficiency or abandonment caused by drought, flood, storm, freeze, disease, or insects. For a farmer to be eligible for these payments, the natural disaster must cause damage to all or a substantial part of the crop throughout the local producing area in which the farm is located.

Program Administration. The State and county Agricultural Stabilization and Conservation (ASC) committees are responsible for local administration of both the farm proportionate share (acreage allotment) and the conditional payment parts of the program. This local administration is based on procedures and program regulations developed by the Sugar Division of the Agricultural Stabilization and Conservation Service in Washington and approved by the ASCS Administrator and the Secretary of Agriculture.

All regulations issued under the authority of the Sugar Act are first made public through a U. S. Department of Agriculture press release. They are published in the Federal Register a few days later. They are codified as Title 7 Chapter VIII of the Code of Federal Regulations.

Certain regulations must be preceded by public hearings. These are marketing allotment orders, fair price and fair wage determinations, and the determination of processes and qualities which distinguish raw sugar from direct-consumption sugar.

Other regulations may be issued without public hearing, but it has become customary, as noted earlier, to hold a hearing in November of each year on the initial sugar requirements for the following year. Informal public hearings are also held when restrictive proportionate share regulations for individual farms are under consideration.

The Quota Premium

The limitation that the quota system puts on total marketings of sugar in the United States brings about what is called a "quota premium." The premium is the difference, over and above tariff and freight, between the price at which raw sugar is sold for consumption in the United States and the price for sugar sold to other countries at the so-called "world free market price." During 1958-61 the quota premium has averaged about 2.2 cents a pound.

The world free market price is actually a residual or marginal price at which only a small part of the world supply of sugar is sold. Most of the sugar produced in the world is consumed in the countries where it is produced, and generally the growers and processors in these countries are paid a much higher price for their product than the world free market price, just as the producers in the United States are. Moreover, of the 30 percent of world sugar production which moves in international trade, about half moves under protected pricing systems such as the preferential trade arrangements under which sugar moves to British, French, and Portuguese metropolitan markets from their respective overseas supplying areas and the quota arrangements under which foreign sugar is imported into the United States. If one eliminates these trade-preference supplies and the double-counting which takes place when world free market sugar is imported into a country for refining and then is exported again, the total supply of free market sugar equals only about one-eighth of total world sugar production.

With such relatively small free market available for sugar, the price for this sugar has fluctuated widely over the years. It is extremely sensitive to any major international disturbance or threat to world peace. Within the

last 12 years the world free market price reached highs of 8.05 cents a pound in June 1951 (the Korean crisis) and 6.85 cents in April 1957 (the Suez and Hungarian crises) and dropped to a low of 2.48 cents in November 1961.

In contrast to these wide fluctuations, the price of raw sugar in the United States under the quota system has been relatively stable. Since 1951, the price of raw sugar in the United States, on a duty-paid basis, has ranged between a high of 6.80 cents a pound and a low of 5.65. The quota system thus has served to eliminate both the extremely high prices for sugar, which are hurtful to consumers, and the extremely low prices which are disastrous to producers.

In 1950-51 and again in 1957 when the quota premium turned into a discount, foreign countries supplying the United States under the quota systems continued to make this sugar available even though larger returns could have been realized by selling the sugar in other markets. The predominance of Cuba as a foreign supplier, particularly in meeting unexpected changes in our needs, made her the decisive factor in this stabilizing effect of the quota premium on U. S. sugar prices. The dispersion of our foreign supply sources after mid-1960 altered the role of the quota premium.

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